

STATE OF HAWAII—DEPARTMENT OF TAXATION
INSTRUCTIONS FOR FORM N-314
HOTEL CONSTRUCTION AND REMODELING TAX CREDIT

GENERAL INSTRUCTIONS

Note: *If you are claiming the Ethanol Facility Tax Credit, no other credit can be claimed for the same taxable year.*

Each taxpayer subject to Hawaii's net income tax and transient accommodations tax may claim a hotel construction and remodeling tax credit for a qualified hotel facility located in Hawaii. A nonrefundable tax credit of 10 percent is available for qualified construction or renovation costs incurred after November 1, 2001, but before July 1, 2003. The credit changes to a refundable 4 percent credit for qualified construction or renovation costs incurred after June 30, 2003 through December 31, 2005. See Department of Taxation Announcement No. 2001-20.

No tax credit shall be allowed for that portion of the construction or renovation costs for which another tax credit was claimed under Hawaii's net income tax law for the taxable year.

If a deduction is taken under Internal Revenue Code (IRC) section 179 (regarding an election to expense certain depreciable business assets) no tax credit shall be allowed for that portion of the construction or renovation costs for which the deduction was taken.

The basis of eligible property for depreciation or ACRS purposes for state income taxes shall be reduced by the amount of tax credit allowable and claimed. Alternatively, you may treat the amount of the credit allowable and claimed as a taxable income item for the taxable year in which it is properly recognized under the method of accounting used to compute taxable income.

The tax credit shall not be available for taxable years beginning after December 31, 2005.

In the case of a partnership, S corporation, estate, trust, association of apartment owners of a qualified hotel facility, time share owners association, or any developer of a time share project, the tax credit allowable is for qualified construction or renovation costs incurred by the entity for the taxable year. The construction or renovation costs upon which the tax credit is computed is determined at the entity level. Each partner, S corporation shareholder, or beneficiary of an estate or trust shall separately take into account for its taxable year with or within which the entity's taxable year ends, the partner's, shareholder's, or beneficiary's share of the construction or renovation costs and resulting tax credit. A partner's share of the construction or renovation costs shall be determined in accordance with the ratio in which the partners divide the general profits of the partnership. The construction or renovation costs of the partnership which are subject to a special allocation that is recognized under IRC section 704(a) and (b) shall be recognized for the purposes of this tax credit. Each S corporation shareholder's construction or renovation costs is the shareholder's allocated share of the S corporation's construction or renovation costs. A beneficiary's share of the construction or renovation costs is apportioned between the entity and the beneficiaries based on the income of the entity allocable to each. The term "beneficiary" includes an heir, legatee, or devisee. Associations of apartment owners and timeshare owners associations, see the instructions for Part III.

When credit can be claimed. The credit may be claimed for the taxable year in which the costs were incurred. When costs are incurred depends on a taxpayer's method of accounting. For cash basis taxpayers, costs are incurred when paid. For accrual basis taxpayers, costs are incurred when the expense is recognized.

Time for filing. All claims for the tax credit, including amended claims, must be filed on or before the end of the 12th month following the close of the taxable year for which the tax credit may be claimed. An extension of time for filing a return does not extend the time for claiming the tax credit. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

Definitions. For purposes of the tax credit:

"Qualified hotel facility" means a hotel/hotel-condo as defined in section 486K-1, HRS, and includes a time share facility or project.

"Construction or renovation cost" means any cost incurred for plans, design, construction, and equipment related to new construction, alterations, or modifications to a qualified hotel facility. The plain meaning of the terms "alter" and "modify" require actions which change a property by renewing its condition. Maintenance is the act of making repairs to prevent a decline or lapse in the existing state or condition. Routine maintenance would not qualify for the credit because routine maintenance does not change a property by renewing its condition. To the extent that incidental maintenance repairs are incurred as part of a general plan of renovation, however, these expenses will qualify for the credit since they are incurred as part of an expenditure to improve a property. See Tax Information Release No. 2000-2.

SPECIFIC INSTRUCTIONS

Part I — Computation of Tax Credit for Costs Incurred After 11/1/01, but before 7/1/03

Line 1 — This line is for the carryover of unused hotel construction and remodeling tax credit. This is your tentative current year hotel construction and remodeling tax credit.

Tax Liability Limitations

Line 2 — Enter the tax liability before any credits from the appropriate line of your tax return.

Line 3 — The law requires that ALL other credits offset a taxpayer's tax liability BEFORE allowing a hotel construction and remodeling tax credit. **Complete the Credit Worksheet** in these instructions and enter the result on line 3.

Line 5 — Compare the amounts on lines 1 and 4. Enter the smaller of line 1 or 4 here. This is your maximum credit allowed for this taxable year.

Tax credit to be deducted from income tax liability. Tax credits which exceed the taxpayer's net income tax liability may be used as credit against the taxpayer's net income tax liability in subsequent years until exhausted.

Part II — Computation of Tax Credit for Costs Incurred After 6/30/03, but before 1/1/06

Line 7 — Enter the qualifying construction or renovation costs incurred during the taxable year after 6/30/03 for qualified hotel facility(ies) located in Hawaii. Do not include that portion of the construction or renovation costs for which another tax credit was claimed under chapter 235, HRS, for the taxable year. Do not include that portion of the renovation cost for which a deduction is taken under IRC section 179. Do not include costs for routine maintenance or repairs.

Line 8 — Flow through of qualifying construction or renovation costs received from other entities, if any. In the case of a taxpayer who is a member of a pass-through entity (i.e., partnership, S corporation, estate, or trust) and who claims a tax credit for the entity's qualified construction or renovation costs, enter the amount of the costs incurred after 6/30/03 received from the entity on line 8.

Line 9 — Estates and trusts: The total cost incurred after 6/30/03 on line 9 is to be allocated between the estate or trust and the beneficiaries in the proportion of the income allocable to each party. In the space above line 9, enter the cost allocable to the estate or trust with the designation "N-40 PORTION". Attach Form N-314 to the N-40 return and show the distributive share of the costs for each beneficiary.

Form N-20 and N-35 filers, stop here. Form N-20 filers, enter the amount on line 9 on Schedule K, line 21. Form N-35 filers, enter the amount on line 9 on Schedule K, line 12k. Form N-40 filers, enter the distributive share amount on line 10 of Schedule K-1, Form N-40, for each beneficiary, otherwise, continue to line 10. Identify this amount as post 6/30/03 costs. All others, continue to line 10.

Line 11 — Enter this portion of the tax credit claimed for the year on this line and on Schedule CR, Line 17 or enter the estate's or trust's share on Form N-40, Schedule F, line 3. For individual taxpayers, round the amount on line 11 to the nearest dollar.

Tax credit to be deducted from income tax liability, if any; refunds. If this portion of the tax credit exceeds the taxpayer's income tax liability, the excess of tax credit over liability shall be refunded to the taxpayer; provided that no refunds or payment on account of the tax credit shall be made for amounts less than \$1.

Part III — Owner-member's Share of Qualifying Costs

Part III is for associations of apartment owners and timeshare owners associations to provide information to the associations' owner-members regarding the members' share of the associations' qualifying construction or renovation costs. Each member must qualify for the credit on its own. The fact that this information is provided to a member does not qualify that member to take the credit.

Any association of apartment owners or timeshare owners association which has incurred qualifying construction or renovation costs for a qualified hotel facility located in Hawaii shall provide to its members a statement of the member's share of those qualifying costs on this form.

Name of association — The association's name is to appear in the name space near the top of the form.

Line 12. — Member's name - Enter the member's name on this line.

Line 13. — Member's identification number. Enter the member's social security number or federal employer identification number.

Line 14. — Member's share of qualifying costs incurred after 6/30/03. Enter the member's share of the total qualifying construction or renovation costs incurred by the association during the taxable year.

Instructions for Members

If you have received this form from your association, see the General Instructions of this form to determine if you qualify for this credit. If you qualify for the credit, enter the amount in Part III, line 14 of the Form N-314 you received from your association of apartment owners or timeshare owners on line 8 of Part II and check box d of the Form N-314 you will use to compute your credit and file with your return.

CREDIT WORKSHEET	
Tax Credit	Amount
a. Ethanol Facility Tax Credit	
b. Income Taxes Paid to another state or foreign country.....	
c. Enterprise Zone Tax Credit	
d. Carryover of the Energy Conservation Tax Credit.....	
e. Credit for Employment of Vocational Rehabilitation Referrals	
f. Individual Development Account Contribution Tax Credit.....	
g. Credit for School Repair and Maintenance.....	
h. Ko Olina Resort and Marina Attractions and Educational Facilities Tax Credit.....	
i. Renewable Energy Technologies Income Tax Credit.....	
j. Credit for Low-Income Household Renters.....	
k. Credit for Child and Dependent Care Expenses	
l. Credit From a Regulated Investment Company	
m. Fuel Tax Credit for Commercial Fishers.....	
n. Credit for Child Passenger Restraint Systems	
o. Capital Goods Excise Tax Credit.....	
p. Motion Picture and Film Production Income Tax Credit.....	
q. Low-Income Refundable Tax Credit.....	
r. Tax Credit for Research Activities	
s. Low-Income Housing Tax Credit.....	
t. High Technology Business Investment Tax Credit	
u. Technology Infrastructure Renovation Tax Credit.....	
v. Carryover of the Residential Construction and Remodeling Tax Credit.....	
w. Add lines a through v. Enter the amount here and on Part I, line 3.....	